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Korea, Republic of

Promotion Opportunities

Quarterly Market Highlights - February, 2003

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Report Highlights:
In 2003, the Korean economy is expected to grow in the 4-5-percent range, down from 6.2 percent in 2002. In general, most local economists are positive about the Korean economy in 2003 despite the slightly lower growth rate. Consumer spending is expected to remain steady, again driving growth in demand for U.S. processed food products, meats, seafood, and fresh fruits.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Seoul ATO [KS2], KS

SECTION I. ECONOMIC SITUATION

The outlook for 2003 is not expected to be quite as favorable as 2002. A possible war in Iraq and the general economic uncertanties in the U.S. are likely to have a negative effect on Korea's economy. Korea is dependent on exports of industrial goods (cars, steel, electronics and petrochemical products), and external factors such as exchange rate fluctuations and changes in foreign demand will affect the expected economic growth rate.

Internally, there is some concern about the increasing household debt problems and the decline in consumer spending. There is some fear that the newly elected incoming government will institute reform policies, but it is unlikely to implement any dramatic change. On the positive side, unemployment and inflation are expected to be quite low and wages are increasing.

Recent tensions on the Korean Peninsula have not resulted in any changes in the business climate in South Korea. However, Moody's Investors Service Inc., an international credit rating agency, recently lowered its outlook for South Korea from positive to negative. A negative outlook means that a downgrade in the country's credit rating is likely in three to four months. On the other hand, two other major rating agencies have no plans to lower their outlook for South Korea at this time.

For the past 50 years, the South Koreans have lived with various moments of increased tension from the North and most culminate in a peaceful solution. A diplomatic resolution to this current crisis is also expected to emerge eventually. For South Korea, at least right now, it seems as if it is business as usual.

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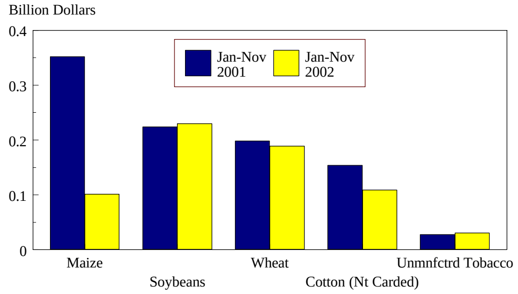
In October, 2002, Korea successfully negotiated a free trade agreement with Chile, the first such arrangement for Korea. Although rice, apples and pears were excluded, many other Chilean agricultural products will become tariff-free after ten years. In the future, Korea is likely to form additional FTA's with Japan, Singapore, Association of South-East Asian Nations (ASEAN), and even with the United States and China. It is likely that FTA's could significantly stimulate growth in the Korean economy.

SECTION II. AGRICULTURAL SITUATION

Korea depends on imports for about 70 percent of food and feed consumption. Total imports for 2002 are expected to be $12.8 billion, an increase of 7.3 percent from 2001. Imports for 2003 are forecast at $13.5 billion, an increase of 5.0 percent from this year. Korea is the 4th largest U.S. export market for agricultural, fishery and forestry products. Imports from the U.S. represent a 25.3 percent market share in 2002, down from 27.9 percent in 2001.

Imports from the U.S. of bulk products declined 29.8 percent January-November 2002

Korean Imps. of U.S. Bulk Products Down 29.8% From Last Year

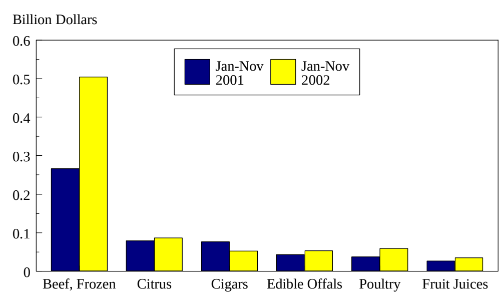


(compared to the same period in 2001) to a total of $676 million; however, total imports from all countries increased 8.5%. As a result, the U.S. market share is expected to decline from 31.9 percent in 2001 to 22.8 percent in 2002. U.S. corn exports have declined considerably (71.2 percent from 2001) due to intense price competition from Chinese corn. In 2002, Chinese corn domintated the Korean market for both feed and processing uses. U.S. cotton exports have also dropped (29.4 percent from 2001) despite depressed U.S. prices. Australian cotton is still priced competitively due to high stock levels and the U.S. GSM program has not resulted in the usual benefits because importers are able to get local financing at better rates. U.S. wheat exports are also down (4.7 percent) primarily due to competition in the feed wheat sector.

Imports from the U.S. of intermediate agricultural products also declined 11.2 percent to $779 million in 2002 (January-November) compared to the same time period last year. Total imports from all countries also declined 7.4 percent, still the U.S. market share went from 28.9 percent in 2001 to 26.2 percent in 2002. Korean imports of hides and skins, which represent 61 percent of the intermediate goods category, declined by 20.8 percent for bovine hides and skins and 17.6 percent for other hides and skins. However, hay and fodder products, which are subject to a TRQ, have shown an increase in this past year of 19.7 percent. Livestock producers expect continued strong demand for imported hay to continue in 2003.

Total Korean imports of consumer-oriented products increased 25.8 percent to $3.2 billion in 2002 (January-November) compared to the same time period last year. Imports from the U.S. however, increased 33.4 percent greatly expanding the U.S. market share (30.5 percent in 2001 to 41.5 percent in 2002). Accounting for a larger portion of this group (over 40 percent) is frozen beef which showed an increase of 89 percent in 2002 to $504 million. Other consumer-oriented products that are showing heightened interest from the Korean market include fresh/chilled beef, other prepared vegetables, chocolate and chocolate confectionary items, guts/bladder/stomachs, other nuts such as almonds, shelled walnuts and pistachios, pork, and flavored mineral water.

Korean Imps. of U.S. C-O Products Total Up 33.4% From Last Year



SECTION III. PROMOTIONAL OPPORTUNITIES

Chipping Potatoes Mission, February 24-March 2, 2003 - The Washington State Potato Commission and the U.S. Potato Board will sponsor five chipping potato buyers from Korea to visit production and processing areas in the Northwest. The buyers will tour chipping potato farms and processing plants, have meetings with potato growers, and attend a technical seminar. ATO Seoul helped recruit the Korean buyers on behalf of the Washington State Potato Commission.

Natural Products Expo West/ Organic Buying Mission, March 2-9, 2003 - ATO Seoul will sponsor a group of 9 organic buyers interested in learning more about U.S. organic products. The group will visit an organic farm, a manufacturing facility, and tour an organic supermarket in a city in California prior to the Show. If you are interested in this buying mission, please contact Mrs. Oh, Young Sook (ohy@fas.usda.gov) in our office.

MIATCO Organic Buying Mission, March 9-16, 2003 - MIATCO will sponsor 3 processed product buyers from Korea on a special buying mission after the Natural Products Expo West Show in Anaheim, California. Before the Show, the group will travel to St. Louis, Missouri and Minneapolis, Minnesota for meetings with organic manufacturing companies. In addition, a special consolidator will be traveling with the group to help arrange for consolidated shipments. If you are interested in this buying mission, please contact Mrs. Oh, Young Sook (ohy@fas.usda.gov) in our office.

ATO Seoul Korea Day at the FoodEx Japan, March 12, 2003 - In 2003, we expect many Korean food importers to visit the FoodEx Japan 2003. ATO Seoul will have an information table in the U.S. Pavilion and will provide assistance, including translation, match making, and trade consultation to Korean buyers visiting the pavilion. For more information, please contact Mrs. Youngsook Oh (ohy@fas.usda.gov) in our office.

Snack Food Buyers Mission, March 16-17, 2003 - MIATCO will sponsor one snack food manufacturer from Korea who is interested in importing snack food ingredients and products. The buyer will meet one-on-one with U.S. suppliers from the MIATCO and Food Export USA-Northeast regions. The mission will visit Minneapolis and the Snack Food Expo Show (SNAXPO Show, www.sfa.org) in San Francisco. Special programs focusing on the snack food industry in Latin America and the Pacific Rim will be offered. If you are interested in this buying mission, please contact Mrs. Oh, Young Sook (ohy@fas.usda.gov) in our office.

Food and Hotel Korea 2003, March 18-20, 2003 - USDA/FAS will endorse the Food and Hotel Korea 2003 Exhibition to be held at the SETEC Convention Center in Seoul. The Food and Hotel Korea 2003 is the first privately organized trade-only international food show in Korea, taking the place of the "Great American Food Show" sponsored by the Agricultural Trade Office over the past 12 years. The show is conveniently scheduled to take place the week following the FoodEx Japan exhibition. Over fifty U.S. suppliers will display a wide range of food products at the show. For more information about the show, please contact Mr. Sangyong Oh (oh@fas.usda.gov) in our office.

Seoul International Wine Exhibition, March 27-28, 2003 - ATO Seoul will participate in the 2003 World Wine Festival. U.S. wines will be displayed at the Show and a U.S. wine expert will conduct a seminar about U.S. wines. For more information about this event, please contact Mr. Oh, Sang Yong (ohs@fas.usda.gov) in our office.

SECTION IV. HOT TOPICS

Korean Seafood Imports: Total seafood imports (HS 03) increased 16.9 percent to $1.53 billion during January-November 2002 from the same period of last year, and seafood imports from the United States also increased 13.8 percent to $150 million during the first eleven months from the same period of last year. These imports from both the world and USA in 2002 are a record high.

Seafood imports are expected to continue to increase in the foreseeable future because of limited domestic supply, resulting from depletion of fishery resources in the Korea's adjacent waters, restrictions of fish catch in the neighboring countries' waters, and reduced catch quotas from foreign countries including Russia. If interested in further information, please contact Mr. Kim, Seh Won at (kimsw@fas.usda.gov).

Organic Brochure: ATO Seoul produced an organic brochure in Hangul. This brochure explains the U.S. and Korean organic standards, and the Korean certification requirements for imports of organic products from the U.S. If you are interested in receiving copies of these brochures in English or Hangul, please contact Mrs. Oh, Young Sook (ohy@fas.usda.gov) in our office.

SECTION V. REPORTS PUBLISHED IN PAST THREE MONTHS

Annual Report of Dairy and Dairy Products, October 17, 2002 (KS 2055)
In 2003, it is expected that dairy imports will rise despite surplus fluid milk production as imports of both cheese and NFDM. Imports of cheese, which dipped temporarily in 2002, are expected to return to 2001 levels. Meanwhile, imports of whey posder are expected to increase by 10-15 percent.

Organic Products Market Update, December 17, 2002 (KS2068)
The Korean market for organic products is expected to grow dramatically in the next five years. U.S. exporters have a unique opportunity to educate buyers especially about U.S. processed organic products and to develop relationships which can grow into long-term sales.

Organic Seminar and Government Meetings, February, 4, 2003 (KS3005)
ATO Seoul organized an organic seminar for Korean importers who were interested in learning more about the new U.S. organic regulations. Mr. Keith Jones from the Agricultural Marketing Service met with various Korean government officials concerning organic import requirements and made the presentation at the seminar. The expected results of this activity were exceeded when 90 percent of the surveyed participants stated that their knowledge of the U.S. organic regulations was either very good or good.

Retail Food Sector Report, February 5, 2003 (KS 3006)
The retail food sector in Korea is undergoing a rapid change, as large retail formats and convenience stores edge out traditional wet markets and "mom and pop" grocers. The change will progress from the retail outlets to the distribution system, eventually leading to lower prices and greater variety to consumers. The growth of modern retail formats, coupled with the consumers' ever stronger demand for international tastes and products, will be translated into growing opportunity for a wider variety of consumer ready U.S. food products.

SECTION VI. POST CONTACTS AND FURTHER INFORMATION

For more information or assistance, please contact:
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